

# Islam and Muslim Societies

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### Two Views on Muslim Societies: Maududi and Ramadan

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Sayyid Maududi<sup>1</sup> and Tariq Ramadan<sup>2</sup> are among the most influential scholars of Islam. They posed the question of Muslim response to the perceived challenges from Western modernity. The basic problem is old; the theories are multiple; now Maududi and Ramadan introduced new insights into the discourse. In the process they structured religiosity in their unique ways. Their approaches were different, from which could emerge possibly a more nuanced worldview.

About four decades ago, in late-colonial India, definition and preservation of the religious identity and traditional culture of the country's sizable Muslim minority, more than a fifth of the total population, became the central concern of Maududi's contemplation. Soon he would look at a larger canvass. Rising to address the audience at Aligarh Muslim University, on 20 October 1941, Maulana Maududi dwelt on the 'real' economic problem of man and its Islamic solution. To him, all aspects of human life --- economy, polity, and society --- converge into one: the faith. Maududi would distinguish 'true Muslims' from 'partial Muslims'. And he would aim at the umma of all Muslims of the world.

Ramadan had recognized the anchor of Western modernity --- reason and freedom<sup>3</sup>, but deplored its excesses; reiterated Islamic notions of harmony and balance with nature; and envisaged construction of 'another civilization' *from within* the modern Western

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structure. 'This is the case of Islam at the end of the twentieth century', so thought Ramadan. His first premise was this: Everything that is not clearly prohibited by the scripture is in fact allowed. The prohibition acts both as a limitation as also an orientation.<sup>4</sup>

This article analyses the approaches of Maududi and Ramadan, discerns their anomalies, and explores their compatibility so as to address their underlying concerns. The outcome of this exercise might be rewarded with the emergence of a universal worldview.

### *Orthopraxy and the Umma*

Muslims perform two categories of piety, namely, orthopraxy (behavioral correctness), and orthodoxy (doctrinal correctness). Traditionally, Islam had insisted more on orthopraxy than on orthodoxy. As a case in point, the regular recitation of sacred texts was generally considered more important than comprehension of their meaning.<sup>5</sup> Even in non-Arab lands, the call to prayer and the prayers themselves were almost always in Arabic, a language few understood. Contemporary Islamists consider Ataturk's directive that the call to prayer in mosques of Turkey be in Turkish, rather than Arabic, an attack on Islam itself; the directive was rescinded after Ataturk's death. It is significant that no major Islamic language has a word meaning orthodox.<sup>6</sup>

It was in the ritual of orthopraxy that Maududi would find a way to identity formation. He anticipated the thesis on 'religious privatization': as in the West religion got pushed from public to private domains, it became less of an influence on individual religiosity and lifestyles.<sup>7</sup> Now, aware of this negative impact of religious privatization, Maududi proceeded to bring the religion into open.

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With the advance of capitalism, market penetrates every sphere of one's life, including home. Choices are to be made in respect of job, daily shopping, investment, retirement, and so on. What else could be a more conspicuous platform than economic activities where one's identity can be displayed regularly and prominently, drawing the recognition of fellow believer and repelling infidel contamination? Should one's economic transaction be bestowed with Islamic virtue and Arabic authenticity, it would be a combination of Islam and economics, in short, Islamic economics.

The umma is an *imagined community*<sup>8</sup> of millions of Muslims spread all over the world, at the moment with little or no interconnection. Now the common idioms of Islamic economics will facilitate improving mutual understanding, and as they interact more with one another, minimizing their relations with outsiders, less vulnerable will they be to the pollution of mind by other cultures. Islamic economics will thus be instrumental for cultural separation.

The umma, with Islamic economics, will be a unified common market of all Muslims. "The division of labour is limited by the extent of the market."<sup>9</sup> As the common market of umma expands, increasing division of labour would follow, accompanied by economic revival.

An episode in the early history of Islam would shed light on how to sanctify economic activities. Sufism had arisen in the eighth and ninth centuries in parallel with, and in protest to, the *sharia* which was considered by some believers to have reduced Islam to a set of purely exterior rules. To correct that trend sufism strived to reproduce within

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man that state of mind and heart that made it possible for Mohammad to receive the revelations in the first place. It was man's interior-*islam* that ought to be the true foundation of law, not the dictates of professional jurists. Sufism thus aimed high.

Among several scholars, Abu Hamid Mohammad Al-Gazzali (d. 1111) was most successful in reconciling the sharia with the interior-*islam*. He showed the inner, sufistic meaning of canonical duties which are binding on every believer of the faith. Through his theology all sharia rules about eating, sleeping, washing, hygiene and prayer --- apparently every mundane chore of daily life --- were given a devotional and ethical interpretation, so that they were no longer simply external directives, but enabled the believers to cultivate their perpetual consciousness of the divine. Sharia became a way of achieving the interior-*islam*.<sup>10</sup> Maududi would follow Al-Gazzali's path.

Referring to the doctrine of orthopraxy, Maududi reminded the Muslims that they needed to make a point of keeping their religiosity continuously in public view. In every domain of activity, they had to be conscious of how their behaviour differed from that of others, making themselves easily distinguishable as Muslims. Economic functions are carried out mostly outside home. Therefore, it could serve the cause of heightening Islam's visibility. For example, if Muslim traders were to follow Islamic contracting procedures, and if Muslim consumers were to make choices in ways distinctly Islamic, then as a result Islam would gain salience, enabling new generations to grow up in an environment where Islam appeared highly relevant to everyday decisions. Bringing economics within the purview of religion was central, then, to Maududi's broader goal of defining a self-

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contained Islamic order. If work enjoyed religious meaning, and work and worship were perceived as a continuum, the modern Muslim would have a unified personality, rather than a bifurcated one.<sup>11</sup> In effect, Maududi invoked the ritual of orthopraxy (behavioral correctness) and defined 'correctness' in terms of economic transactions, thereby giving life to the Islamic economics, sustaining the umma.

Wherever they were, whether as a majority or a minority, to survive as a community Muslims would have to treat Islam as their *way of life*, not merely as a system of faith and worship. 'True Muslims', Maududi wrote, 'merge their personalities and existence into Islam.' They subordinate all their roles 'to the role of being Muslims.' But, laments Maududi, only a few Muslims were, in fact, 'completely immersed in Islam.' The others were but 'partial Muslims'; beyond certain limited extent, they led lives that had no touch of religion whatsoever. Their likes and dislikes, daily transactions, business activities and social relations had nothing to do with Islam, being based on 'personal considerations and self-interest.' By relegating Islam mostly to private domain of life, they had weakened their community and fueled the ascent of infidels.<sup>12</sup>

### *Orthodoxy and the Civilization*

The societal place of Muslims in a non-Muslim country<sup>13</sup> has been an intricate proposition to the ulema. Orthodox schools contended that it was not possible for a Muslim to live a good Muslim life in an infidel land. He must leave home and go to some Muslim country. If the infidel country was tolerant and allowed him to practice his religion, might he stay? The answer was in that case it was all the more important for him to leave,

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because under a tolerant government, the danger of apostasy was greater.<sup>14</sup> Now Tariq Ramadan<sup>15</sup> has sought to overturn this verdict of classical jurors. Rather he looks upon the late twentieth century immigrant Muslims residing in the West as the vanguard destined to prepare another territory for the foundation of 'another [Islamic] civilization', 'from within' the Western society. They are the new 'messengers' of Islamic faith to the humankind just as Prophet Mohammad and his Companions were in Mecca before the Hijra, surrounded by the unbelievers, during 610-622.

The two binary milestones of classifying the world --- *dar al-islam* (House of Islam) and *dar al-harb* (House of War) --- were devised during the ninth century in the wake of spectacular Islamic conquests. They do not occur in the Koran. An intensive study of their constitutive criteria shows that the two abodes are not authentic. Most of the ulema insisted on the ownership of land and the application of Islamic legal system in order to declare the existence of a dar al-islam, while it is the nature of the legal system and that of the government that are considered as relevant factors for a dar al-harb. In the first case the stress is on the population and in the second case on the government. This asymmetry is at the root of a deep divergence between contemporary ulema.

This debate, apart from its definitional ambiguity, has become obsolete in modern times. The very elements of consideration have changed. Now populations are in constant movement and the distribution of economic, financial, and political power as well as the diversification of strategic alliances and zones of political influences is too complex to bear the classical binary division.

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The four elements of consideration referred to above --- the faith of the population living in the country, ownership of the land, nature of the government, and the laws in force in the country --- are no longer unambiguous to set out a correct perception of the real situation of Muslims in the world of today. The structure of Muslim countries has changed under colonial domination including political actions known as 'protections'. Muslim societies have been reoriented by alliances between Muslim rulers and Western powers. These countries hardly deserve the appellation of dar al-islam. On the other hand, Islam is the second largest religion by numbers of believers in France; many a country in Europe and America is approaching that stage. An environment that ensures the freedom of conscience and worship to Muslims (i.e. of their faith and worship) and protects their physical integrity is not in fact a hostile space. In North America as in Europe, five fundamental rights are guaranteed that allow the Muslims to feel at home in their countries of residence. So, Imam Faysal al-Mawlawi states: 'We are not, in the West, in the dar al-harb; we are in an abode of invitation to God,' which he characterizes in Arabic as the *dar al-dawa*. He goes on to expand: 'In our opinion, the whole world is a dar al-dawa', for the twenty-first-century Muslims. Tariq Ramadan agrees with the Imam, albeit with a slight amendment in nomenclature: 'dar' meaning 'house' is too constrictive in the present context; so he replaces it with *alam* which refers to the whole world. To Ramadan, Muslims now live in the *alam al-dawa* i.e. the 'world of invitation to God'. He elaborates: 'This means that Muslims living in the West, individuals as well as communities from various countries, not only may live there but are also the bearers of an enormous responsibility: they must

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give their society [in the West] a testimony based on faith, spirituality, values, a sense of where boundaries lie, and a permanent human and social engagement.’<sup>16</sup>

The Muslim community had bypassed the flairs of Renaissance, Reformation, Enlightenment, and modernity. Ramadan now unequivocally urges the Muslims to ‘produce a ‘true intellectual revolution’ in the sense intended by Kant when he spoke of the ‘Copernican revolution’.<sup>17</sup> ‘When the Renaissance, humanism, and Reformation ... worked together in the West ... to start the process of secularization and to set free the power of reason that has become more and more autonomous and scientific, Islamic civilization seemed to freeze. ... Grippled by the ethical teaching of Islam, increasingly incapable of renewing the dynamic link between the moral frame of reference and the autonomy of reason, and feeling that they are in danger visa-a-vis the dynamism and expansion of Europe, the ulema were bound to the supreme authority of religion and preferred to sacrifice ‘the other knowledge’ [i.e. natural science], rather than the norms of religion.’<sup>18</sup> ‘Behind this sustained nostalgia and idealized dream,’ Ramadan continues, ‘a deep malaise lies hidden, because we do not know, we no longer know, how to reestablish the connection between religion and science such that religion’s ethical teachings give science a dignified finality without perverting its implementation or impeding its advances.’

Ramadan proceeds to explore how to reestablish the connection between religion and science. He would do it, figuratively speaking, by comprehending the universal messages of the Mecca period of the Prophet with his subsequent contemplation on the Medina state. ‘So, a distinction should be made, in the case of the society of Medina, for



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example, between the fundamental principles on which it was established (e.g. the rule of law, equality, freedom of conscience and worship), and the form in which that society historically appeared. Faithfulness to principles cannot involve faithfulness to the historical model because times change, societies and political and economic systems become more complex, and in every age it is in fact necessary to think of a model appropriate to each social and cultural reality.<sup>19</sup> Ramadan gives an example: 'although the principles of democracy are identical, the models of democracy in Europe and also in the United States vary widely.'<sup>20</sup>

In the area of Islamic practice, the Koran is the only ultimate source of reference because the rites are fixed and not subject to human intervention. 'In the wider area of human and social affairs the established methodology is the exact opposite: everything is permitted except that which is explicitly forbidden by the text. ... Thus, the scope of exercise of reason and creativity is immense, and people have complete discretion to experiment, progress, and reform as long as they avoid what is forbidden.'<sup>21</sup> The basic, inviolable core of timeless principles consists of three doctrines relating to respectively: faith, practice, and spirituality. 'The first and most important element of Muslim identity is *faith* ... faith in the oneness of God. It is the purest expression of the essence of Muslim identity beyond time and space. It is naturally embodied in religious *practice* (prayer, *zakat*, fasting). Closely connected with these two realities [viz. faith, and practice] is the fundamental dimension of *spirituality*,<sup>22</sup> which is the remembrance of God. In a word, the timeless three elements of Muslim identity and culture are: monotheism; the practice of

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prayer, zakat, and fasting; and the remembrance of God. This is ordained in the scripture. Beyond this, reason has its full freedom.

The threefold construction of Ramadan --- the realm of alam al-dawa, the sanctity of fundamental principles as stated in the text, and the delineated sphere for reason --- seems open to internal contradiction. Suppose that in pursuance of science, a believer in Islam gets convinced that 'man is descended from less highly organized form.'<sup>23</sup> The scientific evidence is as follows. "The grounds upon which this conclusion rests will never be shaken, for the close similarity between man and the lower animals in embryonic development, as well as in innumerable points of structure and constitution, both of high and most trifling importance --- the rudiments which he retains, and the abnormal reverses to which he is occasionally liable, --- are facts which cannot be disputed. These have long been known, but until recently they told us nothing with respect to the origin of man. Now when viewed by the light of our knowledge of the whole organic world, their meaning is unmistakable. The great principle of evolution stands up clear and firm.'<sup>24</sup> As a result will the believer begin to have doubts about the story of Creation as it is narrated in the scripture? To him, the conception of a Creator would beg the question: Who is the Creator of the Creator; ad infinitum. What did He do before the Creation? Second, in case the Muslims conceive of an alam al-dawa, other religious groups might as well have similar ideas. And history has seen episodes of assimilation of faiths: e.g. Taoism, Confucianism, and Buddhism have blended together to give the Chinese one religious and moral order; Hinduism and Islam

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contributed to the rise of Sikhism.<sup>25</sup> Would it not be a great gift to humanity if the best elements of all faiths are integrated?

Finally, 'Muslims must engage, within their own areas of competence in groundbreaking specialization in all areas of contemporary knowledge', writes Ramadan, 'and far from being intoxicated by that knowledge and changing it into a new idol of modern times, they must make their contribution to the ethical question that it raises.' 'The scientific challenges facing the new Muslim presence that seeks to act from within, not from the margins of society and science, are to master the rule and methods of the various humanities and pure sciences, to discuss hypotheses and applications, and to put forward new perspectives.'<sup>26</sup> And at the same time, they must have 'a knowledge of the West, its history, and the social, cultural, political and economic dynamics that constitute what one may call its speciality.'<sup>27</sup> All this would involve full participation in democracy. Now, once the Muslims imbue democratic freedom and the knowledge of natural and social sciences, their worldview might change substantially, an anxiety once expressed by the medieval ulema, and now shared by Ramadan himself in so far as he says: 'we must not minimize the difficulty we have in protecting *living faith* in industrialized countries subject to the logic of production and consumption.'<sup>28</sup>

### *Umma, Empire, Civilization*

Prophet Mohammad founded the *umma* of Medina in 622, with a written Constitution, world's first of its kind, enriched with articles of the rule of law, equality, and toleration. Within a century, by about 750, Islam had largely attained its greatest

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geographical extent: the Muslim Empire was in place. In 750, the caliphate passed on to the Abbasid dynasty and their black flag replaced the white flag of the predecessor, Umayyads. Decisive changes did come about --- a vast political, social and intellectual upheaval. The Islamic civilization began taking shape, a result of the union between the empire and the ancient civilizations whose territory it touched.

Bedouin Arabia had supplied Islam with an exceptional fighting force; they were not converted overnight. After the death of the Prophet in 632, the nomads rose up against Islam. Caliph Umar (634-44) diverted their energy abroad, to conquer Iraq, Syria, and Egypt. Thus the Bedouins accomplished Islam's first conquests. Then the mountain people of North Africa, the Barbers, helped it to overrun Spain in 711. Finally, it used the Turko-Mongols, Central Asian nomads, on and almost within its borders. From the tenth century onwards, Turkish mercenaries formed the bulk of the armies serving the caliphs of Baghdad. In course of time the Seljuk Turks and then the Ottoman Turks became the new princes of Islam.<sup>29</sup>

*Golden Age:* Legendary caliph, Harun al-Rashid (768-809) inaugurated a great cultural renaissance in Baghdad and other cities of the empire. Besides patronizing scholarship, science and the arts, the caliph also encouraged the study of *fiqh* (Islamic jurisprudence), and preparing the anthology of *ahadith* which later enabled the composition of *Sharia*. His son, al-Mamun (813-33), creator of the House of Science (at once a library, a translation centre, and an astronomical observatory), had large numbers of foreign and especially Greek works translated into Arabic. In Cordoba, caliph El-Hukam II

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(961-76) had a library of 400,000 manuscripts, with 44 volumes of catalogues, as against only 900 manuscripts in the library of Charles V of France. A vast economy with a market system took root. Agriculture became a commercial project. Numerous industries developed: iron, wood, textiles (linen, silk, cotton, and wool). A financial market spread.<sup>30</sup>

Islam owes its ancient glory to horsemen as well as to seamen whose symbol was the Sindbad the Sailor. Arab sailing dhows, their planks secured with palm-fiber and not nail, followed monsoon cycle for large-scale trade. The Arab maritime epic was long-lived. Mediterranean was the ocean where Islam's fate as a sea-power was decided. Its domination by Arabs lasted more than a century, beginning in the late ninth century; by the close of the eleventh century, a slow strangulation, a gradual constriction, of the 'Arab Lake' started. The golden age of Islam would come to an end by the next century.

Europe, in the fifteenth century, invented a new type of oceangoing sailing-ship, three-masted and square-rigged, with a sprinkling first of lateen and later of fore-and-aft sails, capable of keeping the sea for months on end without putting into port. In such vessels Portuguese mariners succeeded in outflanking the Arab seafront on the Atlantic. When Vasco da Gama rounded the cape of Good Hope to reach India, he opened a new sea route to Asia. Europeans in Asia were no longer there simply as merchants. By the seventeenth century they were making bases that in time became colonial dependencies. The new European empires in Asia, controlling the points both of arrival and departure in East-West commerce, effectively outflanked the Middle East.<sup>31</sup> Then, with the Industrial Revolution, Europe gained two centuries of rapid material progress, leaving Islam behind.

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*Civilization:* The ten centuries between the expedition of Alexander the Great (336-23) and the rise of Islam were a 'colonial period'. The Greeks dominated an immense area that covers the present-day Middle East including Persia, Asia Minor, Syria and Egypt. They imposed their language and administration on the colonies. The interregnum of the Roman conquest diminished, only for the time being, the Greek influence, which recovered as the Roman Empire fell in the fifth century and Byzantium --- Greek civilization again --- took its place. The seventh and eighth centuries witnessed 'decolonization' of the region at the hand of Arab forces; but Greek philosophy, science and medicine would make their way soon.

The renaissance of the Abbasid period was enriched by the incipient philosophy of Muslim humanism derived as it was from the *falsafa* (Greek philosophy). Development of the philosophy involved a long succession of thinkers at different times and places. Of these, five names stand out: Al-Kindi (d. 870), Al-Farabi (d. 950), Avicenna, aka Ibn Sina (980-1037), Al-Gazzali (d. 1111), and Averroes, aka Ibn Rushd (1126-98). The agonizing dispute between divine revelation and the human philosophical explanation required mutual concessions by both reason and faith. Avicenna had a solution: the prophets had revealed *higher* truths 'in the form of fables, symbols, allegories and images or metaphors.' Their language was meant for the mass of people, aimed at keeping them happy. The philosopher, by contrast, has to go far beyond such language. While religion is for everybody, only the intellectual elite should attempt philosophy. Avicenna had insisted on

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freedom to choose, even when there is a stark and utter contradiction between the rival approaches.

Averroes differed from Avicenna. He held, on the basis of his interpretation of Aristotle, that the soul, in so far as it is individual, is not immortal; immortality belongs to only intellect, which is impersonal, and *identical in different individual beings*. Averroes regarded human reason as a reflection of the Absolute Reason which is God. By purifying our intellects of all that was not rational and learning to live in a wholly reasonable way, human beings could reverse the process of eternal emanation away from the divine, ascend from the multiplicity and complexity of life here below to the simplicity and singularity of the One. This process of catharsis was the primordial religion of all humankind. All other cults were simply inadequate versions of the true faith of reason.

In the thirteenth century, the Middle Ages of Europe had reached a culmination in the synthesis gradually built up since the fall of Rome. The fourteenth century brought a dissolution of institutions and philosophies; the fifteenth brought the beginning of those that would be deemed still as modern. Thomas Aquinas (1225-74), the celebrated scholastic philosopher, is a living influence like Plato and Aristotle. During the three years, 1269-72, when he was in Paris, he was concerned seeing the influence of Averroes's philosophy on the university faculty. Averroesism, Saint Thomas reckoned, was contrary to certain cardinal elements of his faith. He now resolved 'to undo the harm done by too close adherence to Arabian doctrines'. In this he was singularly successful: he set off a revolution in philosophy and theology.<sup>32</sup> In the event, it was through the 'Arabian doctrines' of

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Averroes that Aristotle's philosophy of universal dignity and equality by virtue of man's possession of reason would transit into the Renaissance of Europe in the fifteenth century. And therefrom it would come to pervade the Enlightenment, in particular the concept of democracy in Kant.<sup>33</sup> Civilizations borrow from neighbours: it's an irresistible phenomenon.

### *Islamic Solidarity: Islamic Economics*

To strengthen the consciousness of the umma, Maududi drew attention to similarities and historical bonds among the world's Muslims. He dismissed the apparent diversity and discord among them as aberrations. Differences among Muslims in culture, language, and politics would diminish in salience, even dissolve, if only they were to restore the vitality of the umma. Solidarity among believers was of prime importance to him. The modernity and Industrial Revolution of Europe had attracted applause of many a Muslim. One of the pressing challenges was to specify the economic components of a new Islamic economics. Maududi sought to redefine orthopraxy in a way that would allow, even encourage, certain adaptation without a loss of the community's identity. Economic change is central to modernization. But, unless Muslims make economic adjustments in ways visibly Islamic, identity loss would be inevitable. He reinterpreted the piety of *zakat*, in addition to being one the five pillars of faith, as an Islamic solution to the problem of securing equilibrium in the economy. And he encouraged development of Islamic finance in conformity with traditional methods of Muslim merchants of the yore.



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Zakat is an annual levy on wealth at a rate fixed by tradition, viz. 2.5 percent. The collected sum is distributed among the poor and needy. As the beneficiaries spend the money to purchase consumer goods, demand for goods in markets goes up and the economy is rescued from a potential burden of excess supply. This is the essence of Maududi's Islamic solution of man's economic problem. Markets, however, fluctuate in cycles, or there may be too many or too few poor and needy candidates for zakat. Under the circumstances zakat would be ineffective to attain equilibrium in the economy.<sup>34</sup>

Fabulous Arab merchants dominated world trade on sea and land more than five centuries ago. Financial markets meanwhile have transformed beyond recognition in structure, products and technology. As recently as 1973, a method of computing the equilibrium price of a special kind of financial asset, viz. option, was invented.<sup>35</sup> That knowledge has set in motion a continuing explosion of innumerable types of financial instruments in the market. Evidently, the theory and practice of Islamic finance are yet to supersede the prevailing standard.<sup>36</sup>

Moreover, given the relative backwardness of the umma economy at present, rapid growth of industry is essential in order to approach and cope with the pace of global capitalism. Industry requires sophisticated modern technology to be imported from the West. Which means, for the umma, reorientation of its lifestyle, education system, and social structure. All this change is not fully predetermined; there are alternatives within a certain range. Who will navigate the process of finding the true Islamic way from among the possible options? Who would evaluate Maududi's thesis, in the first place?

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### *Faith and Reason*

Ramadan laid down a threefold piety of faith --- commitment to monotheism; the triple practice of prayer, zakat and fasting; and remembrance of God. He placed the remaining spheres of life in the domain of reason. But, from the philosophical perspective, reason itself is open to question in respect of its autonomy, authority, and impartiality.<sup>37</sup> Reason is subject to evolution: 'reason itself does not operate on instinct, but requires trial, practice, and instruction in order gradually to progress from one stage of insight to another.'<sup>38</sup> And the field of reason's insight is limited to 'what it itself produces according to its own design.'<sup>39</sup> Human reason is not the author of religion; so religion is alien to reason's comprehension. Reason, therefore, cannot recognize human being in his totality. In theological viewpoint, God created the universe including reason. So reason is subject to divine laws, it has no autonomy. Either way, Ramadan's model seems to lack coherence and cogency.

### *Concluding Remark*

Maududi upheld maximal orthopraxy; Ramadan professed minimal orthodoxy combined with free orthopraxy led by reason. They marked two poles of Islamic consciousness. An open discourse and debate among the people could shed more lights.

### *Appendix: Banking and Finance*

The standard banking and finance prevailing in markets, and the proposed Islamic banking and finance, both have the same objective, viz. maximum profits in competitive markets. Instruments of their operations are similar: deposits, credit, security, bonds,

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options, and the like. They differ to some extent in respect of categories of accounting. Both can learn from each other.

A good part of Islamic economics is about banking and finance. 'The basic premise of Islamic finance lies in the need to eliminate both interest (riba) and uncertainty (gharar) from financial transactions.'<sup>40</sup> It seems that interest would be there in one form or another, and financial risk (uncertainty) cannot be fully eliminated because the so-called systemic risk is inherent in the economy. Consider the following sample of concepts used in Islamic banking and finance.

*Murabaha*: This relates to mortgage. For a traditional bank it is a single transaction. But an Islamic bank splits it into two parts. It first buys the actual item of mortgage in the market, and then re-sells it to the buyer at an undisclosed profit. The buyer gets his ownership of the item registered at the beginning of the transaction and he repays the bank in installments. The bank asks strict and substantial collateral to protect its business interest.

Obviously, even though the buyer is not formally informed of the bank's profit, he can find out the item's market price and calculate the profit made by the bank and the interest he pays. Figuring out the implicit annual interest rate is not difficult.

*Musharka*: Islamic banks lend money to companies at floating interest rate. The interest rate is pegged to the borrowing company's profits on investment. Thereby creditor and debtor both share profit and risk. The profit sharing arrangement is concluded as soon as the principal amount of the loan is repaid.

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If the standard risk premium prevailing in the market is known, the implicit interest rate charged by the bank can be worked out.

*Mudaraba*: In the case of venture capital financing, the entrepreneur provides labour and the bank brings finance. Profit and risk are shared by both parties.

*Wadiah*: The bank presents a hibah (gift) to the depositor as a token of appreciation for having the opportunity to use the depositor's money. Again, working out the implicit interest rate on the deposit is not impossible, given the amount of gift.

*Equity Funds*: The number of Islamic equity funds in the world is over 100, managing the assets of over five billion dollars, growing at an annual rate of about 15 percent. The method used by these funds for their investments is not known in public. However, their performance does not show extraordinary achievement.

If the Islamic equity funds rely on any portfolio theory, then it would be most probably related one way or the other to the standard Capital Asset Pricing Model (CAPM), developed by Black and Scholes cited in Note 35 below. The CAPM equation is as follows.

$$(1) \quad r_i = r_f + b_i (r_m - r_f).$$

Here  $r_i$  is the expected return on asset  $i$ ;  $r_f$  the risk-free interest rate (usually measured by the rate of return on treasury bills);  $b_i$  (the beta) the sensitivity of the asset's return relative to the market return; and  $r_m$  the expected return of the whole market portfolio. Beta  $b$  is defined as  $\text{Cov}(r_i, r_m) / \text{Var}(r_m)$ . The expression  $(r_m - r_f)$  is known as the market premium or risk premium, i.e. the difference between the market return and the risk-free interest rate.

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Once the expected return  $r_i$  is worked out with equation (1), the future cash flows of the asset can be discounted to their present value using this rate to establish the 'correct' price of the asset.

In theory, therefore, an asset is correctly priced when its observed price in the market is the same as its value calculated using the CAPM derived discount rate. If the observed price is higher than the correct price computed with the CAPM model, then the asset is overpriced (and under-priced when the observed price is below the CAPM valuation). Market price of the overpriced asset is expected to fall; so better it is to sell it; by the same logic it is prudent to buy under-priced assets.

The presence of  $r_f$  in the CAPM equation testifies that interest rate is an integral part of asset valuation. It follows that all the cited concepts of Islamic banking and finance directly or indirectly engage the rate of interest.

Now, as for risk, a portfolio involves two kinds of risk, namely, systematic, and specific. Systematic risk refers to the risk common to all securities, i.e. market risk. Specific risk is the risk associated with individual assets. As for elimination of risk, indeed, specific risks can be diversified away (specific risks 'average out'); but systematic risk (within one market) cannot.

Depending on the market, a portfolio of approximately 15 (or more) well selected shares might be sufficiently diversified to leave the portfolio exposed to systematic risk only. The so-called 'rocket-scientists', proficient in high mathematics, working in traditional financial centres around the world, are tirelessly churning out ever new species of stocks,

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options, swaps and innumerable varieties of other products with alternative combinations of risk and return to choose from.

In a word, there is a trade-off between risk and return. Financial risk in business cannot be fully eliminated. And interest payment in banking and finance, in one form or another, cannot be entirely avoided.

### *Notes*

1. Sayyid Abul Ala Maududi (1903–1979), was a Pakistani journalist, theologian, and political philosopher. He is considered one of the most influential Islamic thinkers of the twentieth century. In 1941, the Maulana founded the Jamaat-e-Islami, an Islamic political party. At an early stage, he was given home education of religious nature, followed by secondary education at Madrasa Furqaniyah. His undergraduate study at Darul Uloom Hyderabad was disrupted by the illness and death of his father. Sheikh Maududi completed his studies outside the regular educational institutions. Maududi took up journalism for a living. He dedicated himself to the cause of the global umma under one caliphate. To Maududi, everything in the universe is 'Muslim', for it obeys God by total submission to His laws, enshrined in the *Sharia*. In his view, the *Sharia* was a divine scheme of life, an all-embracing social order, complete in itself and self-sustaining. The Islamic state would be a 'theo-democracy', obedient to the Islamic law of *Sharia*, hence an antithesis of secular Western democracy based as

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it is on the sovereignty of the people. The rights of the *dhimmi* (non-Muslims) are limited under Islamic law.

2. Tariq Ramadan is the grand son of Hassan al-Banna, founder of the Muslim Brotherhood in Egypt. His father, Said Ramadan, was an ideologue of the Muslim Brotherhood, persecuted and exiled from Egypt for 41 years until death. A former professor of philosophy and Islamic studies at the College of Geneva and at the University of Fribourg in Switzerland, Tariq Ramadan is revered by some as 'a Muslim Martin Luther,' also named among the *Time's* 100 most important innovators for the 21<sup>st</sup> century. *Washington Post* (29 August 2004) considers his book, *Islam, the West and the Challenges of Modernity*, as 'perhaps the most hopeful work on Muslim theology in the past thousand years.'
3. The doctoral thesis of Said Ramadan, *Islamic Law: Its Scope and Equity* (Cologne University, 1959), presented a synthesis of the fundamental positions of Hasan al-Banna on the subject of the Sharia, law, political organizations, and religious pluralism --- a manifest and permanent open-mindedness, never once the slightest sanction of violence. Said Ramadan rejected the idea of 'an Islamic revolution.'
4. Tariq Ramadan, *Islam, the West and the Challenges of Modernity*, Markfield, U.K.: Islamic Foundation, 2001, at 8.
5. Karen Armstrong, *Islam: A Short History*, New York: Modern Library, 2002, at 60; Frederick M. Denny, 'Orthopraxy in Islam and Judaism: Convictions and

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- Categories', in *Studies in Islamic and Judaic Traditions II*, ed. William M. Brinner and Stephen D. Ricks, Atlanta: Scholars Press, 1989.
6. Timur Kuran, 'The Genesis of Islamic Economics: A Chapter in the Politics of Muslim Identity', *Social Research*, 64(2), 1997.
  7. Thomas Luckman, *The Invisible Religion: The Problem of Religion in Modern Society*, New York: Macmillan, 1967.
  8. Benedict Anderson, *Imagined Communities*, London: Verso, 1991.
  9. Adam Smith (1776), *An Inquiry into the Nature and Causes of the Wealth of Nations*, London: Oxford University Press, 1976, at 31.
  10. Armstrong, *Islam: A Short History*, at 88; W. Montgomery Watt, *Muhammad at Medina*, Oxford: Clarendon Press, 1962, at 118-21.
  11. Kuran, 'Genesis of Islamic Economics.'
  12. Sayyid Maududi, *Let Us Be Muslims* (1940), ed. Khurram Murad, Kuala Lumpur: Noordeen, 1990; idem, 'Formal and Real Islam Differentiated' (1945), *Selected Speeches*, 1981; idem, *Islamic Way of Life* (1948), Lahore: Islamic Publications, 1976.
  13. A Muslim country is described as one where at least 70 percent of the population is Muslim.
  14. Bernard Lewis, *What Went Wrong? The Clash between Islam and Modernity in the Middle East*, New York: Harper Collins, 2002, at 36.



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15. Tariq Ramadan, *Islam, the West and the Challenges of Modernity*, Leicester: The Islamic Foundation, 2001; idem, *Western Muslims and the Future of Islam*, Oxford: Oxford University Press, 2004.
16. Ramadan, *Western Muslims and the Future of Islam*, at 73.
17. Ibid, at 53.
18. Ibid, at 56.
19. Ibid, at 35-36.
20. Ibid, at 235n 6.
21. Ibid, at 34, 35, 80. Ramadan accepts the Kuran and the Sunna as the sources of Islam. To him, *Sharia* 'is the work of human intellect', whereas, by contrast, to Maududi, it is divine.
22. Ibid, at 79.
23. Charles Darwin (1871), *The Descent of Man*, Amherst, NY: Prometheus Books, 1988, at 629.
24. Ibid, at 629.
25. Adam Smith proposed a competitive market of faiths. 'The teachers of each sect, seeing themselves surrounded on all sides with more adversaries than friends, would be obliged to learn candour and moderation. ... The teachers of each sect would be obliged to respect those of almost every sect, and the concessions they would mutually find it both convenient and agreeable to make to one another, might probably reduce the doctrine of the greater part of them... to pure and

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rational religion, free from every mixture of absurdity, imposture, or fanaticism.'

*Wealth of Nations*, at 793.

26. Ramadan, *Western Muslims and the Future of Islam*, at 61.

27. Ibid, at 10.

28. Ibid, at 70.

29. Fernand Braudel, *A History of Civilizations*, Penguin, 1993, at 69.

30. Ibid, at 71. A merchant declared: 'I want to send Persian saffron to China, then ship Chinese porcelain to Greece, Greek brocade to India, Indian iron to Aleppo, Aleppo glasses to Yemen and Yemeni striped material to Persia.' In Basra, settlements between merchants were made what we should call a clearing system.

31. Lewis, *What Went Wrong?*, at 13-15; Arnold Toynbee, *A Study of History*, abridged by D. C. Somervell, vol. 2, New York: Oxford University Press, 1957, at 188.

32. Armstrong, *Islam: A Short History*, at 71-74, 83-84, 88-91; Braudel, *A History of Civilizations*, at 29, 81-84; Bertrand Russell, *A History of Western Philosophy*, New York: Simon & Shuster, 1945, at 453.

33. Immanuel Kant (1785), *Groundwork of the Metaphysics of Morals*, Cambridge: Cambridge University Press, 2003.

34. For more on the economics of zakat, see Ranjit Sau, 'Modernity, Islam and A Triple Liberation', *Islam and Muslim Societies*, 1(1), August 2005.

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35. Fischer Black and Myron S. Scholes, 'The Pricing of Options and Corporate Liability', *Journal of Political Economy*, 81(3), 1973.
36. Analyzed in the Appendix.
37. Frederick C. Beiser, *The Fate of Reason: German Philosophy from Kant to Fichte*, Harvard University Press, 1987.
38. Immanuel Kant (1784), 'Idea for a Universal History with a Cosmopolitan Intent', in *Perpetual Peace and Other Essays*, Cambridge: Hackett, 1983, at 30.
39. Immanuel Kant (1781), *Critique of Pure Reason*, Cambridge University Press, 1998, at 109.
40. Sajjad Chowdhry, 'Islamic Finance 101', *The International Islamic Finance Forum, Asia* (web), 2004.